

<b>Finance and Administration Cabinet STANDARD PROCEDURE</b>	<b>Page 1 of 2</b>
ISSUED BY: <b>Department of Revenue – Tax Administration</b>	
EFFECTIVE DATE:	
PROCEDURE: <b>6.11.3 (formerly KRC 11.5)</b>	
SUBJECT: <b>Audit Billing and Refund Thresholds</b>	
Distribution Code(s): A, B, C, E	Contact: <b>Office of Field Operations (502) 564-2113 Station #9</b>

## I. INTRODUCTION

In order to expedite the audit process and maximize the efficient use of time, money and other resources, the Department of Revenue will not bill or refund adjustments of less than \$25 per audit period or a total audit of less than \$100 unless specifically requested by the taxpayer.

## II. PROCEDURE

The following procedure will be used when billing or refunding audits:

1. All audits will be written up in the manner prescribed by Division of Field Operations training manuals.
2. Any billing or refund period, which does not generate a minimum of \$25 in tax or refunds, will be treated as a “no change” period;
3. Any audit, which does not generate a total of \$100 or more in tax or refunds, will be treated as a “no change” audit.
4. If a total audit is in excess of \$100 but exclusion of certain periods reduces the total audit to less than the \$100 tolerance level, the total audit will stand;
5. Apply the referenced thresholds when an audit period encompasses two (2) consecutive short periods that constitutes twelve (12) months or a calendar/fiscal year.
6. Short periods at the beginning and end of an audit period that are independent of each other and should be treated as two (2) separate audit periods;
7. Audits for corporation income and license tax should be treated as two (2) separate audits when applying the billing and refund thresholds, one for income tax and one for license tax. When billing for corporation license tax, use a total audit threshold of \$30 for bills or refunds instead of \$100, per KRS 136.070(5);
8. Normal audits encompass at least four (4) billing periods and contain a \$100 total audit threshold. Any audit with less than four (4) billing periods is considered post audit. Each period contains a \$25 total audit threshold, instead of the normal \$100.
9. All audit adjustments and results should be explained to the taxpayer through the presentation of work paper copies. These work papers represent proposed adjustments to a period or a group of periods. The papers are normally explained to the taxpayer as part of the closing conference at the end of the audit.

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10. Prepare a Report of Audit for audit periods that do not meet the billing/refund threshold even though deleted from the audit. Enter a zero (0) on the "Additional Tax Liability" line.

### **III. FORMS**

7. Forms - 6.11.3/a (Report of Audit)

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**NO STANDARD PROCEDURE MAY BE REVISED BY ADDENDUM, MEMORANDUM OR ANY OTHER MEANS OTHER THAN THOSE SET OUT IN STANDARD PROCEDURE #1.1 ENTITLED "CREATION, REVISION AND RESCISSION OF FINANCE AND ADMINISTRATION CABINET POLICIES AND PROCEDURES"**

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